



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

May 17, 2006

Single Audit Management Report

J. K. Stringer, Jr., Executive Director
Department of Finance and Administration
1301 Woolfolk Building
Jackson, Mississippi 39201

Dear Mr. Stringer:

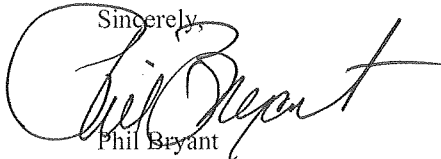
Enclosed for your review is the single audit finding for the Department of Finance and Administration for the Fiscal Year 2005. In this finding, the Auditor's Office recommends the Department of Finance and Administration ensure transfers from self insurance funds do not include federal funds.

Please review the recommendation and submit a plan to implement it by May 22, 2006. The enclosed finding contains more information about our recommendation.

During future engagements, we may review the finding in this management report to ensure procedures have been initiated to address this finding.

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendation enables the Department of Finance and Administration to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Department of Finance and Administration throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

Phil Bryant
State Auditor

Enclosures

SINGLE AUDIT FINDINGS

In conjunction with our audit of federal assistance received by the State of Mississippi, the Office of the State Auditor has completed its audit of the Cash Management Improvement Act and the Statewide Cost Allocation Plan administered by the Department of Finance and Administration for the year ended June 30, 2005. This audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Office of the State Auditor's staff members participating in this engagement included Rob Robertson and Vicki Alvey.

The fieldwork for audit procedures and tests was completed on May 16, 2006. These procedures and tests cannot and do not provide absolute assurance that all federal legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Compliance

The management of the Department of Finance and Administration is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to the Cash Management Improvement Act and the Statewide Cost Allocation Plan systems (Systems) and the preparation of the required reports for the Systems. In planning and performing our audit, we considered internal control over compliance with requirements that could have a direct and material effect on the Systems.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to the Systems being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance that we consider to be material weaknesses.

Compliance

Compliance with the requirements of laws, regulations, contracts, and grants applicable to the Systems is the responsibility of management. We have audited the Systems for compliance with the types of compliance requirements described in OMB Circular A-133. Our audit fieldwork included examining, on a test basis, evidence about the department's compliance with those requirements and such other procedures as we considered necessary.

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with OMB Circular A-133.

**CFDA/Finding
Number**

Finding and Recommendation

ALLOWABLE COSTS/COST PRINCIPLES

Immaterial Noncompliance

93.UN

Various

Federal Award Number and Year: Various
Questioned Costs: To be determined

05-30

Transfers from Self-Insurance Funds Should Not Include Federal Funds

Finding:

Chapter 595 General Laws of Mississippi 2004 Regular Legislative Session, directed the State Treasurer to transfer to the Budget Contingency Fund, monies from various funds. Included in this list were the following self-insurance funds and respective amounts that were transferred:

Fund 3642 - Self-Insured Workers' Compensation Fund (\$2,715,295), and
Fund 3644 - Employment Compensation Revolving Fund (\$471,958).

As directed in the approved legislation, the Department of Finance and Administration processed these transfers during the month of August 2004. Section 25d(5) of Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* states, "Whenever funds are transferred from a self-insurance reserve to other accounts (e.g., general fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer."

Contributions from some of the agencies which participate in these two self-insurance reserve funds are partially funded with monies drawn from various federal government grant sources. As such, the federal percentage of contributions related to these transfers from these self-insurance reserve funds should be repaid to the federal government as required under Section 25d(5) of OMB Circular A-87.

Recommendation:

The Department of Finance and Administration should review the activity of these self-insurance funds and make a determination as to what amount should be refunded to the federal government, as required by OMB Circular A-87.

End of Report